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DEPT PASS USTR FOR DELANEY AND DEANGELIS
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DEPT PASS TDA FOR STEIN AND GREENIP
USOECF FOR ENERGY ATTACHE
CENTCOM FOR CSTC-A
NSC FOR JWOOD
TREASURY FOR LMCDONALD, ABAUKOL, BDAHL, AND MNUGENT
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COMMERCE FOR DEES, CHOPPIN, AND FONOVIKH

SENSITIVE

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SUBJECT: NEW AFGHAN COMMERCE MINISTER TAKES THE HELM

REF: A) KABUL 3290
B) KABUL 3277
C) KABUL 3211

SUMMARY

11. (SBU) Seven days into his new job, Minister of Commerce and Industries (MOCI) Wahidullah Shahrani January 6 described to the Ambassador an ambitious, market-oriented work program. Shahrani said he will limit MOCI to policy and regulatory work, continue efforts to enact pending commercial laws, craft transparent rules and policies to promote business investment, and seek donor support to build needed capacity at the ministry. He aims to commercialize or corporatize the state-owned fuel importer whose corruption contributed to his predecessor's impeachment. Shahrani hopes to visit the U.S. in February or March for TIFA follow-up, and said Afghanistan has accepted Pakistan's proposal to hold the next Regional Economic Cooperation Conference April 3-4 in Islamabad. The Ambassador welcomed Shahrani's energetic work plan and private-sector orientation and said the USG will positively consider technical support for his efforts. End Summary

12. (U) The Ambassador, accompanied by acting USAID Mission Director and EconCouns, called January 6 on the new Minister of Commerce and Industries, Wahidullah Shahrani. Formerly Deputy Finance Minister, Shahrani assumed his new duties on December 28.

ROLE OF THE COMMERCE MINISTRY

13. (SBU) Shahrani said MOCI had lost momentum in recent years. (Note: The unenergetic former Minister Farhang was abruptly impeached by the National Assembly in late December over allegations of corruption in fuel imports.) Shahrani said there are two schools of thought in MOCI regarding its proper mission. Many officials adhere to the old, statist view that MOCI should not just regulate commerce but also own and run productive assets. But he supports a more limited mission and intends to restrict the ministry's role to setting policy and regulatory work.

14. (SBU) Shahrani agreed with the Ambassador that the private sector must be the engine of Afghan growth and prosperity and said he will work to craft transparent and predictable rules and policies to promote business investment. He noted that the WTO is politically

controversial in Afghanistan and that the government needs technical support from donors to prepare for eventual membership.

¶5. (SBU) Shahrani described the capacity weaknesses at MOCI and said he needs donor support to create a new Project Management Unit. While at the Finance Ministry he drew on the UK-supported Afghanistan Investment Climate Facility to hire professional staff, and he hopes to do so at MOCI too. Young professionals would gradually move into ministry management positions.

CORRUPTION IN FUEL IMPORTS

¶6. (SBU) Noting tensions with the IMF over the Fuel and Liquid Gas Enterprise (FLGE, the state-owned fuel importer under MOCI - see Ref B), Shahrani said that within 3-4 months he will develop a plan to commercialize or corporatize FLGE. The reformed entity will not be under any government ministry and will not enjoy any advantages over other (commercial) importers. MOCI has hired a foreign auditing firm to review FLGE, and its report, due soon, will inform future action. FLGE's responsibility for regulating the quality of imported fuel, which represents a serious conflict of interest and opportunity for corruption, will be transferred to the Afghan National Standards Authority, initially at the northern border port of Hairatan, locus of regular allegations of malfeasance by FLGE.

¶7. (SBU) Noting the broader connection between infrastructure and revenue generation, Shahrani said much of MOCI's border-crossing facilities date from the 1960's and 1970's and badly need updating. He said MOCI will develop a plan based on international best practices that will identify the respective roles of the ministry and the private sector in border management.

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¶8. (SBU) Comment: In trying to reform FLGE, Shahrani will need to wrestle with its corrupt but powerful director, Engineer Rozi. Shahrani's deputy told us recently (Ref C) that the foreign auditing firm the minister mentioned had given up trying to conduct a decent review after FLGE refused to open its books. End Comment

COMMERCIAL-LEGAL FRAMEWORK

¶9. (SBU) Shahrani said that six of ten key commercial laws have now been enacted. Four others are under review at the Ministry of Justice, three of which will be debated by the Cabinet's legal committee on January 11. MOCI will also draft implementing regulations for the commercial laws and will focus on simplifying procedures for business. Shahrani also said Afghanistan needs to develop its commercial courts and needs technical assistance in this effort.

USG READY TO SUPPORT THE NEW MINISTER

¶10. (SBU) The Ambassador welcomed Shahrani's energetic work plan and private-sector orientation and said the USG will positively consider technical support for his efforts. He noted Afghanistan's vibrant trading culture and traditional role as a regional crossroads. He stressed the importance of a transparent and predictable legal environment, including effective dispute resolution mechanisms, to promoting trade and investment, and said U.S. legal experts might be able to help develop Afghan commercial courts. The Ambassador urged the GIROA to improve relations with Parliament, which would aid efforts to pass commercial laws. Citing concerns over declining Customs revenues, the Ambassador welcomed plans to reform FLGE and improve border management at Hairatan, where the U.S. has a particular interest because of fuel imports for the military effort. He said the USG is also willing to help Afghanistan prepare for WTO membership.

REGIONAL ECONOMIC COOPERATION

¶11. (SBU) Shahrani said Foreign Minister Spanta has agreed to the Pakistani proposal to hold the third Regional Economic Cooperation Conference (RECC) April 3-4 in Islamabad. This topic, among other things, would be discussed during President Zardari's current visit to Kabul, though no public statement on RECC was likely. EconCouns

urged early convening of separate, bilateral negotiations on a new Afghanistan-Pakistan Transit Trade Agreement. Shahrani agreed but did not indicate any date had yet been set.

BILATERAL COOPERATION

¶12. (SBU) Shahrani expressed appreciation for U.S. assistance to Afghanistan and hope that high aid levels will continue under the new Administration. U.S. Mission officials will be invited to a meeting with other donors on January 21 to discuss MOCI's needs. Shahrani stressed that any assistance requested would be based on mutual commitment. He also reiterated Afghan support for the Reconstruction Opportunity Zone initiative and said Afghan investments in future ROZs will focus on products where the country has a comparative advantage. The Ambassador expressed confidence that the new Congress will approve ROZ legislation and urged Afghan cooperation with future ROZs in Pakistani border areas as well. Shahrani said he hopes to visit the U.S. in February or March, to discuss follow up to Trade and Investment Framework Council talks here in October.

¶13. (SBU) Comment. Shahrani is young, hard-working, and market-oriented and has considerable experience dealing with foreign donors. But he faces big challenges. His plan to take on FLGE will be the first big test of his reformist commitments.

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